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ABSTRACT

This document includes an introduction to the role of government in the production of public goods and services and 3 brief teaching units. The introduction describes the nature of a mixed economy and points out why most people identify the production of goods and services with private enterprise rather than government. It develops a rationale for public goods and services. The unit, "Let's Go Public," is designed for kindergarten through second grade level. It provides 8 activities which help young children realize their own use of government goods and services and creates an understanding of the purpose of taxes. The third and fourth, and fifth and sixth grade units provide a variety of games and activities designed to develop a better understanding of the role of government and the services funded by taxes. (JDH)

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THEME: PUBLIC GOODS AND SERVICES

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THEME: PUBLIC GOODS AND SERVICES

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DIRECTIONS

By William B. Walstad

Dr. Walstad is Assistant Professor of Economics and Director of the Center for Economic Education at the University of Missouri—St. Louis. He is the consulting economist and the author of "Directions" for Volume 3 of ***The Elementary Economist.***

The Mixed Economy

When elementary school students ride in a bus or a car through town, what view of the economy do they see? Most likely there are gas stations, auto dealerships, drug stores, supermarkets, and restaurants along the route. Since these businesses are privately owned, what the students see is the private ownership of resources which is the dominant characteristic of the United States economy. But along the route, interspersed among the private businesses, may be *public goods and services*, such as post offices, court houses, parks, roads, and schools. These examples demonstrate that government, at the local, state, and federal levels, also controls resources and plays a vital role in the production and distribution of goods and services. In fact, our economy is really a mixed economy which provides private goods and services through markets and *public goods and services* through government. When teachers examine the economy with their students, they should discuss how both markets and government provide goods and services.

How mixed is our mixed economy? Currently, the selling and buying decisions which individuals make through the market system account for the production of approximately 80 per cent of the total output of goods and services. The production of the remaining 20 per cent of total output is the result of government purchases used to provide *public goods and services*. While the 80/20 ratio clearly suggests the relative importance of markets over government in our economy, the role of government may be underestimated by these percentages. The government also redistributes income through transfer payments for welfare, social security, and unemployment programs. These government transfer payments to individuals mean that total government spending accounts for about 33 per cent of national output—a substantial portion of economic activity.

Markets and Governments

There are a number of differences in the way markets and government operate in economic affairs. The government can use force as well as voluntary cooperation. Each year local, state, and federal governments request people to pay their taxes voluntarily. If people fail to pay their taxes, the government can force or coerce people to pay by using the legal and criminal systems. The government can draft people into the army, set wage and price controls, and place legal restrictions on certain activities (e.g., gambling). In contrast, actions taken in the market are conducted on a strictly voluntary basis, and there is no legal use of force. Only when a voluntary contract is broken is action taken in the market to enlist the legal power of government to obtain a settlement.

Differences also exist between markets and government in the way people are charged for goods and services. Under the market system, "you get what you pay for." If you want to buy and use a bicycle, you must pay the seller the agreed price. However, most *public goods and services* are provided to users without a direct charge. People usually do not pay directly for national defense, roads, parks, and elementary and secondary education, but rather, they pay indirectly through taxes. Furthermore, the amount of taxes paid may not reflect the quantity of *public goods and services* consumed by the individual. Even in situations where people are directly charged for *public goods or services*, such as for postage stamps or park entry permits, the fees are less than the actual cost since the government subsidizes many public activities.

In addition, market and public decision making are significantly different. In a market, buyers and sellers make their decisions independently of each other, based on an examination of their respective opportunity costs. Public decision making, however, occurs in city halls, state legislatures, and those places where elected representatives make decisions which affect a large group of people, not just themselves as individuals. This type of bargaining and decision making is complex, involves large amounts of money, and is subject to the balancing of political as well as economic considerations.

Public Goods Rationale

While the market price system accounts for the production and distribution of most goods and services in the economy, government performs many valuable functions. The most noteworthy function is the provision of *public goods and services*. By definition, a *public good or service* is one that cannot be provided exclusively to those who agree to pay for it. With private goods and services, those who pay receive the benefits, but with *public goods and services*, there is no effective way to prevent nonpayers from benefitting. In other words, the exclusion principle for the private sector fails to work with certain goods and services, so the government must provide them. In addition, *public goods and serv-*

(continued on page 8)

K-2

LET'S GO PUBLIC

by Ginny Clark

Ginny Clark is presently instructing teachers in a mastery teaching project in the Iowa City Community School District, Iowa City, Iowa. She has been a media specialist and a kindergarten, second-, and fourth-grade teacher.

Public Goods and Services

Markets and government provide goods and services. Consumers make choices in purchasing and consuming goods and services in the market place. People go to the market place and directly pay the merchant for goods and/or services. Everyone helps to pay for *public* (government) *goods and services* whether they consume them or not. People pay for *public goods and services* indirectly through taxes.

The market is referred to as the private sector from which we choose private goods and services. Those goods and services provided by the government are referred to as *public goods and services.*

The activities which follow may be adapted to fit your needs. They are presented at various levels of difficulty to accommodate K-2 usage. All students have, at some time or another, had experiences with paying taxes (e.g., sales tax). These activities will help them to understand tax and its purpose, and add to their understanding of how our economy works.

Goals

The students will:

1. Distinguish between private and *public goods and services.*
2. Explain that everyone helps to pay for *public goods and services* through taxes.
3. Explain that all members of the community pay (through taxes) for *public goods and services* which they may or may not use.
4. Identify *public goods and services.*
5. Associate private goods and services with personal decision making and *public goods and services* with social decision making.

Teaching Activities

1. **Which is Which?** Cut pictures out of magazines which will illustrate both public and private goods and services. Note that some goods and services may be produced in both sectors. Paste them on a chart or make a bulletin board to illustrate which represent private goods/services and which represent public goods/services.
2. **Goods and Services Trek.** Take a field trip around the goods and services centers (e.g., bakery, barbershop, park, fire department) in your community. When you get back to your classroom analyze your list. Classify your findings into private and *public goods and services.* (See Chart No. 1 — Goods and Services.) Alternatively, have students generate a list of these goods and services without a field trip.

GOODS and SERVICES	
PUBLIC	PRIVATE
POST OFFICE	CLEANERS
COURT HOUSE	MACY'S
POLICE STATION	TOY WORLD
PUBLIC LIBRARY	GAS STATION
ZOO	ICE CREAM SHOP
ETC...	
Find as many as you can for each side .	

3. **Tax Us!** To help students recognize the difference between public and private goods and services and how taxes operate, have your students play the following game. Four students can play at one time. Each student owns one of the stores at the corner spots on the game board. (See Chart No. 2 — Tax Us Game Board.) Each student gets ten chips representing one unit of money. When directed to pay for a good or service, the player pays by giving that store owner a unit of money. Each player starts at his/her store. (The players roll a die to determine who starts —high roll—and then go clockwise around the board.) The player who starts, rolls one die. She/he proceeds that number of spaces and does what the space directs. When a player lands on a "PAY TAX" space, that player must spin the spinner and ALL players must pay that public institution one unit of tax. (By paying store owners and all paying tax, the public and private money flow is illustrated). When the players land on a public service (zoo, library, fire station, school), they use the service without additional cost. The taxes they have paid allow them all to use those spaces without an additional direct charge. The game is over when the teacher calls time or when someone runs out of money.

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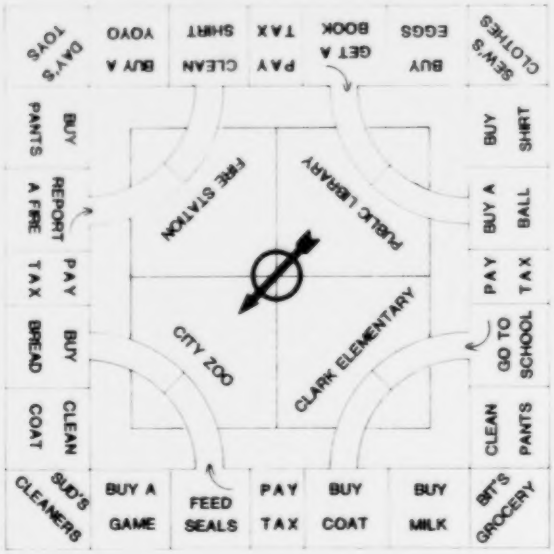
TAX US GAME BOARD



4. **Whose Decision?** This is a simulation game. Set up four stations in your room and label them as private stores in your community. Stock each store with cards depicting several goods or services that can be purchased there. The city government is a fifth station. At this station, place a poster depicting *public goods and services* which are provided. Each child is given two chips. Each chip represents one unit of money. Everyone must pay the city government one unit of money. Then each student must make the decision where she/he wants to spend the other unit of money. Each student is then allowed to go pay the government and purchase something at the store of his/her choice. When the activity is completed, direct a discussion toward the realization that each of us is in charge of deciding what private goods and services we wish to buy, but we all must pay for the *public goods and services* that government chooses to provide. Ask the crucial question: Who makes the decision on where to spend the money we all paid to the government? (Elected representatives in city hall, legislatures, Congress, etc.) The local government decides when to buy a new fire truck, or put up traffic lights, or repair the roads. We all help pay for those goods and services.
5. **Sort-A-Service.** To reinforce the difference between public and private goods/services, set up a sorting activity similar to this: have picture cards illustrating various goods and services in both the private and public sectors. Have the students sort the pictures into a pile of pictures that "YOU" might choose to pay for and a pile of pictures that "ALL" of us would help pay for.
6. **Taxmobile.** After learning about taxes and what is provided through taxes, have the students make a mobile depicting various *public goods and services*. They can draw pictures or cut them out of magazines to mount on construction paper to hang from their mobile. This is a good activity for a learning center.
7. **Representative's Visit.** Invite someone from city hall to visit your classroom. Have this representative inform the children about how their and/or their parents' tax money is spent in their community. Depending on the age group of the children, have the students devise several questions to ask their guest. (How does the city hall decide what to purchase with the tax money? How does this differ from the way you decide what to purchase with your money?) Alternatively, you could simply write a class letter to city hall asking for responses to your questions.
8. **Student Survey.** Devise (with the student's help) a simple survey to send home which the children can fill out with their parents. Send a letter home explaining this unit and stress the importance of completing the survey with their children. The survey's goal is to illustrate the fact that all of us pay tax, but we don't all use the goods and services continually or to the same extent. The amount of use varies among the population. Make the survey one in which the parents and/or children may answer only "YES" or "NO". (See Chart No. 3 — Parent/Child Survey Sample.) Have the surveys returned to the class. As a class, chart out the data and see what conclusions can be made in relationship to your goal.

PARENT / CHILD SURVEY

	YES	NO
WE PAY TAXES.	☐	☐
WE HAVE RIDDEN THE BUS THIS WEEK.	☐	☐
WE CALLED THE FIRE DEPT. IN THE LAST THREE MONTHS.	☐	☐
WE HAVE BEEN AT SCHOOL THIS WEEK.	☐	☐
WE CALLED THE POLICE IN THE LAST THREE MONTHS.	☐	☐
WE WENT TO THE ZOO THIS MONTH.	☐	☐
ETC...	☐	☐

3-4

PUBLIC PROVIDERS

by Patricia E. Blume

Patricia Blume is a third-grade teacher in the Southwestern Jefferson County School Corporation, Hanover, Indiana. She was a state winner in the Olin B. Davis Award Program for the teaching of economics in elementary school.

Public Goods and Services

In the United States, we have what is termed a mixed economy since goods and services are provided either privately or publicly. Private goods and services are provided by individuals through markets such as grocery stores, car dealerships, restaurants, and beauty shops. *Public goods and services* are provided through the federal, state, or local government; these include police and fire protection, schools, postal service, etc.

In order to provide *public goods and services*, the government collects taxes such as income taxes, sales taxes, and property taxes.

Goals

The students will:

1. Explain the terms private and *public goods and services.*
2. Discuss various *public goods and services* that we use in our daily living.
3. Recognize *public goods and services* available in our community.
4. Explain how a public good or service is financed.
5. Explain how taxes benefit society.

Teaching Activities

1. **Public Collage.** Identify the following terms: *goods, services, public, private.* Help students generate a list of both private and *public goods and services.* Have them cut out pictures from magazines or draw their own and make a collage of *public goods and services.*
2. **Newsprint Town.** If available, use the *World of Work Learning Module* by Singer. Show filmstrip #1, "The Workers of Tum Tum." Hang the mural of Tum Tum on the board. Have students put the workers in their correct job locations on the mural strip. If you do not have access to such a module, help students draw one long mural of a town on newsprint. Have the children cut out pictures of people at work and place them in the appropriate places in the town.

   Have students identify the goods and services produced by the workers in the film or on the mural and label them as either private or *public goods and services.*
3. **Sales Tax.** Hang five strips of newsprint on the blackboard. Place on a table in front of the papers, a small toy, a postage stamp, a firefighter's hat (representing fire protection), a gasoline can, and a menu (representing a meal in a restaurant). Ask the students what amount they would have to pay if they wanted to buy each item or service. Write their responses on the newsprint. Most third- and fourth-graders realize that tax is paid at the toy store. Try to elicit responses to demonstrate that taxes are collected on the private goods (toy, restaurant bill, gasoline) in order to pay for the public goods (fire protection, postal service, roads) provided by government.
4. **Taxes Benefit.** Invite the local town treasurer to class to explain what specific local taxes are collected and how the taxes are used to provide goods and services to the community.
5. **Firefighters.** Invite a local firefighter to the class to discuss what protection and aid firefighters provide to the community, how these services are paid, who pays for the equipment needed, salaries, etc. Types of questions will vary depending on the size of the community.
6. **Post Office Tour.** Take a tour of the local post office. Find out how the services are paid, why stamps are sold, etc.
7. **Public/Private Flash Cards.** Use the mini-cards in the module or make a set of cards each with the identification of a community worker. For example:

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Plumber	Police Officer	Principal
Doctor	Ambulance Driver	Secretary
Bus Driver	Pilot	Firefighter
Barber	Teacher	Bricklayer
Singer	Carpenter	Jeweler
Gas Station Attendant	Highway Worker	Waiter/ Waitress
Farmer	Mail Deliverer	Engineer
Printer	Chef	Shoemaker
Fish Catcher	Lumberjack	Naturalist
Grocer	Librarian	Park Director

Use the cards as flash cards to check whether the children can identify which worker is providing a private good or service and which is providing a *public good or service.* During free time, let the children group the cards into public and private goods and services. Provide an answer sheet or make the cards self-checking by writing the answer on the back of each card.

8. **Occupation Interview.** Ask each child to choose one person or institution that provides a *public good or service.* Have them either research the occupation or personally interview the individual and give an oral report.
9. **Mural.** Hang a large piece of newsprint along the blackboard. After the children have reported on the people or institutions providing *public goods or services,* have them draw a picture or scene of what they saw, read, and learned.
10. **What Parks Provide.** If a state park is located in your community, hang a map of the state on a bulletin board. Designate each state park with a pin and attach yarn leading to a short description of the park or state-maintained memorial.

    In English class, have students write letters to the director of state parks and memorials requesting further information to share with the class. This information could be shared with the whole school as well.

    Discuss how these parks or memorials are maintained and financed (through taxes, entrance fees, income from souvenir sales, etc.).
11. **Designing a Park.** Visit the local park to observe the *public goods and services* it offers the community. In class, discuss and brainstorm a list on paper of what the local park provided for everyone (e.g., play equipment, picnic tables, barbecue pits, swimming pool, activities director, naturalist, tennis courts, baseball diamonds, etc.).

    Divide the class into groups of four and have each group design its ideal park. On a separate piece of paper have them list the ways the community pays/would pay for all the facilities (taxes, concession stands, entrance fees, pool fees, etc.).
12. **Table-Town.** On a large table, help the children build a town using construction paper, tubes, empty milk cartons, etc. Include as many buildings as possible that represent public and private goods/services. Help students write short reports about the various *public goods and services* the community provides. Hang these on a bulletin board behind the table-town. Use the table-town as a culmination activity and invite other students in the school to visit and read the written reports and see the exhibit. The reports can also be read aloud to visitors.
13. **Seek and Find.** Find the following words hidden in the puzzle below.

FIREFIGHTER PRIVATE SERVICES TAXES
PUBLIC GOODS LIBRARY SCHOOL
POST OFFICE PARK POLICE MAIL
GOVERNMENT ROADS

F	I	R	E	F	I	G	H	T	E	R	L	G
A	P	I	S	P	U	B	L	I	C	O	P	O
X	O	E	Y	A	T	M	O	T	T	A	R	V
B	L	I	B	R	A	R	Y	V	P	D	I	E
R	I	A	K	K	X	E	W	R	B	S	V	R
X	C	C	G	R	E	M	A	I	L	U	A	N
Q	E	I	O	J	S	C	H	O	O	L	T	M
A	X	P	O	S	T	O	F	F	I	C	E	E
P	R	M	E	O	T	G	O	O	D	S	W	N
Q	N	A	S	E	R	V	I	C	E	S	I	T

5-6

GOVERNMENT GOODS

By Sandy Brown and Ann Miruski

Sandy Brown is the Coordinator, Bilingual Education, K-12, in the Putnam City School System, Oklahoma City, Oklahoma. She has taught French and Spanish, and currently is a tutor and a free-lance interpreter/ translator.

Ann Miruski is the Coordinator, Economic and Business Education, K-12, for the Putnam City School System, Oklahoma City, Oklahoma, and Director in the DEEP Program. She has taught economics and business, and assisted with curriculum development.

Government Goods

In our mixed economy, there are *public goods and services* and private goods and services. Most students are familiar with buying or selling private goods and services, but know very little about how the public sector operates. This lack of understanding is unfortunate, for most students are already paying taxes and receiving benefits from *public goods or services.* Teachers can expand student understanding of their role in the economy by teaching this unit on government goods. The unit was developed to be used with students in an English-as-a-Second Language program (ESL), but the activities are appropriate for use with all elementary students. The economics terms should be taught in both English and the students' native language.

Goals

The students will:

1. Recognize the difference between the public and private sectors.
2. Identify examples of *public goods and services* provided by the three levels of government.
3. Identify benefits received from *public goods and services.*
4. Explain the need for taxes as a means of income for the government so it can provide *public goods and services.*

Teaching Activities

1. **Activity Sheet Number 1: "Seeing is Believing"**
(Observation)
Reproduce copies of this sheet and give one to each student who participates in a field trip to the community shopping area. Adapt as appropriate.
As you proceed to the places listed on the sheet, describe the type of business, its function, and purpose, etc. Make a small purchase and keep the sales receipt. Discuss with the class the tax paid on each item. Write the information on the sheet, and circle in RED the amount of tax added. Emphasize that the tax collected goes into a central account which is used to provide goods and services to the public. Discuss in class which goods and services are provided by the community through the use of sales tax. These are *public goods and services.*

Place Visited	Type of Business	Amt.	Tax	Comment
	Gas Station			
	Grocery Store			
	Variety Store			
	Restaurant			
	Clothing Store			
	Drug Store			
Other				

2. **Activity Sheet Number 2: "Learn By Doing"**
(Math Skill)
Using worksheet Number 1 pertaining to the field trip, list the purchases from each of the places visited. Place the amount of purchase in the appropriate column, then depending on where you live, write the per cent of tax collected, and have students calculate the total paid.

Type of Business	Amount	% Tax	Total Paid
5 gal. gas Gas Station			
Loaf bread Grocery Store			
2 pencils Variety Store			
Hamburger Restaurant			
Gloves Clothing Store			
Bandage strips Drug Store			
Other			

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3. **Activity Sheet Number 3: "Income and Spending"** (In the public sector, income comes from taxing, and goods and services come from spending.) From field trips, reading the newspapers, watching television, or general observation, have students recognize and identify sources of income (sales tax, individual income tax, property tax, corporation income tax, etc.) and areas of government spending (highways, fire protection, education, public health facilities, etc.).*

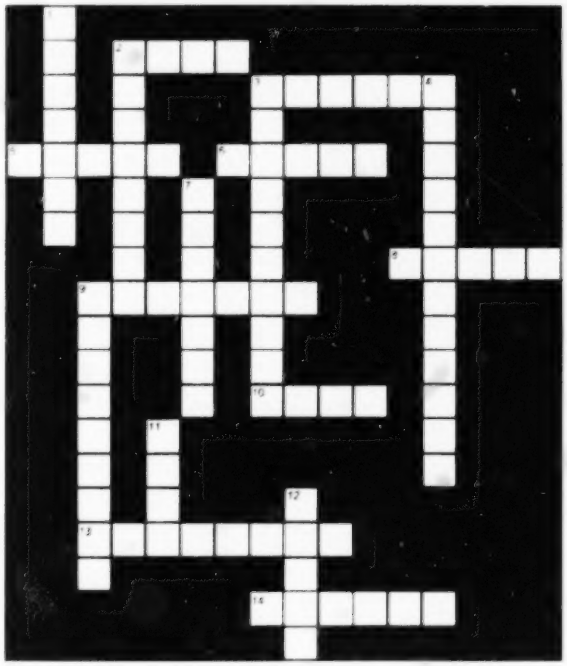
GOVERNMENT		
Local _____	State _____	National _____
Sources of Income (List all the types of taxes you can identify)		**Public Goods and Services** (List all the public goods and services you can identify)
_____		_____
_____		_____
_____		_____
_____		_____
_____		_____

*[**Editor's Note:** Teachers can write to the Internal Revenue Service and receive a free copy of *Your Federal Income Tax* (Rev. Nov. '81) to obtain basic information on the income and spending of the federal government (see the last page of each issue). You may also wish to write for similar information from your state revenue department.]

4. **Activity Number 4: "Levels of Government"** (Government Functions)

Discuss and outline the functions of the local, state, and federal governments in terms of the goods and services they provide. The local government, run by a Mayor, provides libraries, fire protection, police protection, parks, etc. The state government, run by a Governor, provides education, highways, parks, mental hospitals, etc. The federal government, headed by the President, provides the military, social security benefits, educational funds, medical benefits, etc.

5. **Activity Sheet Number 5: "Supply the Word" (Word Builder)**



Across:
2. Anything that people desire; tangible item
3. **Government** ownership and management
5. Bills and coins/a medium of exchange
6. **Lowest** level of government in this country
8. **Chief** official of a **city**
9. Individual ownership and operation
10. A commodity necessary for survival
13. **Highest** level of government in this country
14. Economic goods that are **owned**

Down:
1. A system of producing, distributing, and consuming wealth
2. **Chief** official of a **state**
3. The **creation** of goods and services
4. An economic system without government intervention
7. Work performed or provided
9. **Chief** official elected in the **United States**
11. A good or service desired
12. **Income** to our government

Answer Key: Across: 2. good; 3. public; 5. money; 6. local; 8. mayor; 9. private; 10. need; 13. national; 14. wealth; **Down:** 1. economy; 2. governor; 3. production; 4. capitalistic; 7. service; 9. president; 11. want; 12. taxes

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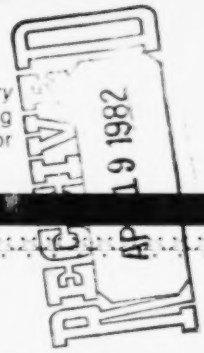

(continued from page 1)

ices are usually less dividible than private goods and services, making it difficult to sell separate units to individual consumers.

For example, if a private business, rather than government, wanted to sell police protection to residents of a city, it might not be able to obtain the voluntary cooperation and payments from all residents. If a police force were established, all residents would benefit whether or not they paid for this service, since it would be difficult to exclude the "free-riders" from receiving the benefits of police protection. Consequently, paying residents would have little incentive to continue paying for the service, and business would find this activity unprofitable. Government action eliminates the problem of "free-riders" by forcing all residents of a city to pay for police protection through taxes, thus ensuring the provision of an important service not provided by the market.

Moreover, government action reduces the transaction costs for many goods and services. Imagine trying to obtain the voluntary cooperation of all residents of a city for police or fire protection. The negotiations would be an enormous undertaking and would entail high transaction costs. By making all residents support the police and fire departments through taxes, the government reduces these transaction costs. Similarly, the government can reduce the transaction costs of building a road or a dam by using the legal power of eminent domain. This action may anger residents who lose their homes for the new dam or highway, but without this power, the negotiation and consent process would make the costs of building roads or dams prohibitive. In the case of food and drug protection, the government reduces transaction costs for consumers by inspecting and testing food and drugs before the products are placed on the market so individual consumers do not have to obtain information and make scientific judgments for which they are not trained.

Another rationale for government provision of goods and services concerns the positive externalities from private actions. Positive externalities are benefits which accrue to people other than those who created the benefits. Education provides a prime example of this concept in operation. When a student obtains a basic education, the student benefits and so does society, since being able to read, write, and think are basic skills needed for a democratic society to function. By lowering the cost of education for people through subsidies from taxes, the government encourages people to acquire more education. This action contributes to an improved society.

In addition to providing *public goods and services*, the government performs other functions for society. As previously mentioned, government **redistributes income** through the tax system in the form of transfer payments to social security retirees, welfare recipients, or the unemployed. The government, especially at the federal level, also seeks to achieve **economic stabilization** in the economy by pursuing policies which promote price stability, full employment, and economic growth. While these functions of government have become more important in the past half century, historically the provision of *public goods and services* has dominated government activity and this function is likely to remain the most important.

Taxes

The provision of *public goods and services* does not occur without cost. When people receive paychecks, a portion of the checks contributes to social security and income taxes. In most states, the purchase price for private products also includes a sales tax. Property taxes are used to pay for a large portion of education. By taxing people in a variety of ways, our society finances *public goods and services* at the federal, state, and local levels.

The basic point to remember, however, is not only that taxes pay for *public goods and services*, but that tax payments represent a transfer of control over resources from private decision making by individuals to social decision making by government. As long as people value the *public goods and services* obtained by tax dollars, the money will be viewed as well spent; on the other hand, when tax dollars are spent on what many people consider to be unnecessary *public goods or services*, then the opportunity cost of the expenditures can outweigh the benefits produced. The appropriate level of spending for *public goods and services* is one of the most debated issues in this country.

The discussion of *public goods and services* in the elementary classroom is not an abstract topic. Most students pay taxes (e.g., sales taxes) and receive the benefits of some government activity. An exploration of the *public goods and services* topic will improve student understanding of how the economy works.

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